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Australia

Biofuels Annual

2011

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Report Highlights:
Biofuels capacity for 2011 is estimated at 665 ML, representing about 440 ML of ethanol and 215 ML of biodiesel. Production of biofuels for 2011 is estimated at 520 ML, representing around 440 ML of ethanol and around 80 ML of biodiesel. According to an Australian government reports, biofuel accounts for around 0.4 percent of total transport fuel consumption. On June 22, 2010 Australia's Customs and Border Protection Service launched concurrent dumping and countervailing duty investigations into U.S. exports of pure biodiesel and biodiesel blends. Following this investigation, Australian customs published a dumping notice and a countervailing notice.

Post: **Commodities:**
Canberra

Summary:

Australia's overall energy production continues to exceed its energy consumption, making Australia a significant net energy exporter. In terms of energy sustainability, at current levels of production, Australia's proven reserves of brown coal, black coal and conventional gas are expected to last 500 years, 100 years, and 60 years, respectively.

Despite the energy surplus, Australia is a net importer of liquid hydrocarbons (including crude oil, liquid petroleum gas (LPG) and other refined and semi-refined petroleum products). Australian reserves of crude oil and condensate represent only a small proportion of total world reserves.

In 2010, Australia was estimated by ABARES to have produced 25,572 (million liters) of crude oil and condensate, down on the 29,456 ML for the previous year. Exports of crude oil were estimated at about 18,064 ML (up on the previous year) and imports estimated at 26,718 ML. This places Australian consumption of crude oil and condensate at around 34,226 LM for 2009/10. Long term projections have production peaking at 30,221 ML in 2013/14, exports peaking at 22,341 ML in 2013/14 and imports peaking at 30,803 ML in 2016/17.

Biofuels capacity for 2011 is estimated at 665 ML, representing about 440 ML of ethanol and 215 ML of biodiesel. This remains below Post's previous estimate as some capacity is deemed not likely to enter production under any circumstances in the short-term. Production of biofuels for 2011 is estimated at 520 ML, representing around 440 ML of ethanol and around 80 ML of biodiesel. According to an Australian government report, biofuel accounts for around 0.4 percent of total transport fuel consumption.

Actual biofuel production is dependent upon the proportion of capacity that can be utilized by biofuel plants. Factors that influence this are profitability, supplies of feedstock, competition from imports and plant closures (due to maintenance, technical difficulties or discontinuation of production). According to industry sources, productivity between plants varies widely. Post advises that estimates for capacity utilization vary widely between sources.

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1. Policy and Programs

International

Australia has been a member of the APEC biofuels task force since its inception in 2006. This task force was created by APEC in response to high oil prices in that same year. Other member countries of the APEC biofuels task force include Canada, Japan, Korea, New Zealand, Singapore, Chinese Taipei, Thailand, the United States and Viet Nam. Malaysia, Mexico and Brazil subsequently joined the group.

The main objective of the biofuels task force is to assist APEC members to better understand the potential for biofuel to displace oil in transport. The working group is part of the APEC Energy Security Initiative and last met in April 2010. It has been reported that the group may conclude its current projects by the end of 2011.

Federal

Historically, the Federal government has had a broad range of policy instruments that affect the production of biofuels. These instruments include a production target, fuel taxes (excise), fuel quality standards, grants and labeling (as reported in GAIN Report AS 7032). Sources suggest that the production target of 350 ML by 2010 has effectively been dropped with government no longer referring to this policy.

At the time of writing this report, both locally manufactured ethanol and biodiesel continue to enjoy effective freedom from Federal excise taxes, currently applied to diesel and petrol at AU$0.38143 per liter. Both ethanol and biodiesel pay excise, if produced in Australia and "excise equivalent customs duty" if imported from overseas at a rate of AU$0.38143 per liter.

Biodiesel is reimbursed AU$0.38143 per liter through the "Energy Grants (Cleaner Fuels) Scheme" which is administered by the Australian Taxation Office. This assistance is applied to both locally produced and imported biodiesel. However, under the new alternative fuels legislation the "Energy Grants (Cleaner Fuels) Scheme" is scheduled to cease on December 1, 2011.

Currently, the Federal government is in the process of introducing new legislation which repeals some existing programs and introduces some new programs.

Under the "Taxation of alternative fuels legislation amendment bill 2011" the government will amend the Excise Act 1901, the Fuel Tax Act 1906 and the product grants and benefits administration Act 2000, and repeals the Energy Grants (cleaner fuels) scheme Act 2004. The Ethanol Production Grants Bill 2011 will provide grants for ethanol production. The Custom Tariff Amendment (taxation of alternative fuels) Bill 2011 amends the Customs Tariff Act 1995 to set excise equivalent customs duty rates applying to alternate fuels from 1 December 2000.

Post understands that this legislation effectively rolls back the original commencement of excise phase-in date from July 2011 to December 2011. Furthermore, the phase-in-period for Ethanol has been extended by another five years and, under this legislation, and will not pay the full rate of federal excise until 2019/20. Legislation to support this proposal has been introduced to Parliament but, at time of writing this report, has not been passed into law. The table below represents Post's understanding of the proposed new phase-in schedule.

Biofuels Excise Rates for Australia				
Fuel Type	**Ethanol**		**Biodiesel**	
	Excise	Effective Relief	Excise	Effective

	Applied		Applied	Relief
2010/11	0	38.10	0	38.1
2011/12	14.35	23.75	3.8	32.1
2012/13	18.70	19.40	7.6	28.3
2013/14	23.05	15.05	11.4	24.5
2014/15	27.50	10.60	15.3	20.6
2015/16	31.85	6.25	19.1	16.8
2016/17	33.10	5.00	19.1	16.8
2017/18	34.35	3.75	19.1	16.8
2018/19	35.60	2.50	19.1	16.8
2019/20	36.85	1.25	19.1	16.8
Source: Exposure Draft Explanatory Memorandum				

Post's attention has been drawn to a media release issued by the Assistant Treasurer, the Hon Bill Shorten, which states that the current taxation arrangements for biofuel will continue for the next 10 years. Under this proposal, Post understands that the phase-in of federal excise tax would not begin until 2021/22 for Ethanol or Biodiesel.

The Federal Parliament is now also debating the merits of a carbon tax. The Federal government is planning to introduce legislation in the second half of 2011 and have it passed as law before the end of 2011. Its Emissions Trading legislation, the government's original climate policy legislation, failed to gain the necessary support to become law and it has since been delayed.

Biofuel policy changes were expected to be driven at the Federal level by the release of the Federal Government's "energy white paper", originally scheduled to be released in 2009. In February 2011 the Federal Department of Resources , Energy and Tourism released an update on the Energy White Paper process reporting that "it is expected that a draft energy white paper will be released over the next 12 months … and finalized during 2012". This would conclude the process which began in 2008.

Delays in energy policy statements and legislation have caused uncertainty for investment in sectors such as biofuel and, Post believes, this has temporarily delayed expansion in this sector.

State

The NSW State government has announced that it will suspend further increases in the ethanol mandate under its volumetric mandatory inclusion policy. Post had previously reported that by 2011, the mandatory volumetric inclusion level of ethanol in petrol would be ten percent. The current volumetric mandate is four percent and follows the volumetric mandated level of two percent implemented in 2007. Under this mandate, each supplier of wholesale fuel for sale is required to provide evidence that total ethanol sales equal or surpass four percent of sales. According to sources, the NSW mandate was expected to be the primary driver of ethanol demand growth in Australia.

The state of Queensland has suspended the implementation of a five percent volumetric inclusion mandate by 2011 (From December 31, 2010 onwards). The Queensland Government has stated that changes to biofuel arrangements at the federal level have given cause for concern. Ethanol is purported to account for 2.5 percent of total automotive gasoline.

Trade Policy

All biodiesel and ethanol imports to Australia attract a Customs Duty rate of AU$0.38143 per liter. However, more recently countervailing and dumping duties have been added to biodiesel imports following concurrent dumping and countervailing duty investigations.

On June 22 2010, Australia's Customs and Border Protection Service launched concurrent dumping and countervailing duty investigations into U.S. exports of pure biodiesel, specifically, B99, and biodiesel blends above 20 percent, during the period from April 1, 2009 through March 31, 2010.

The Customs and Border Protection Service found that biodiesel exported from the United States to Australia were:

- Dumped with margins of 40 percent
- Subsidized with margins of 55 percent
- A cause of material injury to the Australian industry
- Likely to cause further injury if trade continued

As a result of this investigation, a "Countervailing Duty" and a "Dumping Duty" have been imposed on imports of biodiesel from the US. Post has been advised that, in order to determine the total duty payable on imported bio diesel, the "Countervailing Duty" is added to the "Dumping Duty" which is then added to the difference between the Dumping export price and the "Ascertained Export Price". Under the current dumping and countervailing duty schedule, the "Countervailing Duty", "Dumping Duty" and "Ascertained Export Price" all remain confidential. Post understands that imports must be paid for in full prior to Australia's Customs and Border Protection Service applying the confidential duties.

http://www.customs.gov.au/webdata/resources/files/110418-D27101180-110418.pdf

2. Bio Ethanol

2.1 Production

Actual ethanol production is estimated at 440 ML for CY 2011 representing an increase around 60 ML on the revised estimate for the previous year. Some plants are potentially operating below potential capacity making it difficult to estimate actual production.

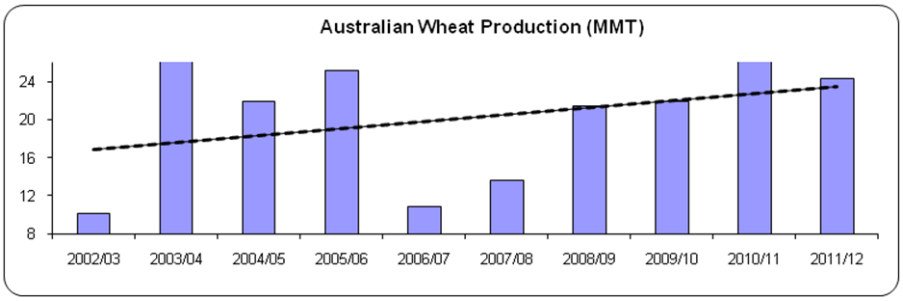
Production is forecast to increase again in CY 2012 as availability of feedstock improves following the conclusion of a near decade long drought. Recent large increases in production have been driven by the state government mandate in NSW, however this mandate will likely not be increased for the foreseeable future.

Conventional & Advanced Bioethanol (million liters)						
Year End July	2007	2008	2009	2010	2011	2012
Production	84	149	203	380	440	450
Imports	0	0	0	0	0	0
Exports	0	0	0	0	0	0
Consumption	84	149	203	380	440	450
Ending Stocks	2	3	4	5	6	7
Production Capacity (Conventional Fuel)						
No. of Biorefineries	4	4	4	3	3	3
Capacity	120	189	456	440	440	456
Source: Source: Australian Government, the Department of Resources, Energy and Tourism/Post estimate						

Beyond CY 2012 Post expects capacity and production to grow slowly without new state inclusion mandates or increases in existing mandates. Any significant increase is expected in demand to be driven by state mandates such as the mandate in NSW. However, political pressure for larger mandates appears to be easing somewhat and this may constrain growth into the future.

Suitable feedstock supply for biofuel production, such as grain, reached historically low levels during the prolonged and severe drought which began in 2002. Post estimates have production of winter cereals at record or near record levels for 2010/11 (July-June). Another large winter cereal crop is expected in 2011 and this will continue to build inventories of potential feedstock's going forward.

Grain prices remained high throughout 2010/11 due to strong export demand, despite a sharp increase in domestic production. The benefits to biofuel producers of increased grain inventories have been somewhat balanced by continued high grain and stockfeed prices.

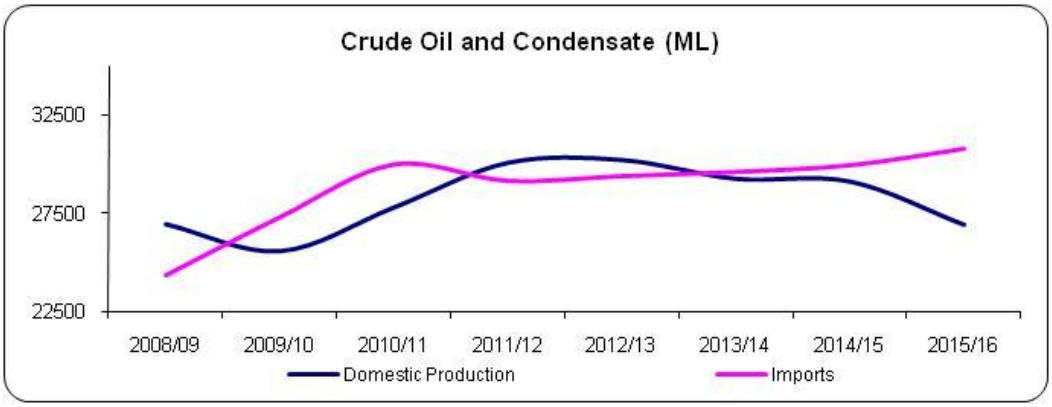


Source: ABARES Data

2.2 Consumption

According to the department of Resources Energy and Technology (RET), Energy consumption in Australia is growing at a slower pace than domestic energy production, as exports have driven production and have partially displaced domestic consumption.

Despite increased production and exports, the "reserves to production" ratio for energy, including oil and gas, has remained relatively steady over the past ten years. However, Australia continues to increasingly rely on imported fuel for transport purposes.



Source: ABARES Data

According to government reports, the demand for diesel has been growing roughly three percent faster than automotive gasoline which has been growing at a rate of about 1.2 percent. Despite the growth in diesel fuel consumption, the overwhelming majority of new cars sold in Australia are run on automotive gasoline.

Retail prices for transport fuels have fallen from the record high levels of 2008 and this is expected to constrain bigger increases in production of biofuel over the medium term. This indicates that consumption has fallen to be more in line with supply. However, since the global financial crisis prices have firmed slightly and are expected to continue rising slowly for the foreseeable future.

According to ABARES, Australia currently has the lowest pre tax price for transport fuel and the fifth lowest post tax price in the OECD (behind Mexico, the United States, Canada and New Zealand).

2.3 Trade

Australia has placed tariffs on imported ethanol which, according to sources, can usually be imported below the cost of local production. The excise equivalent customs duty of $A 0.38143 cents per liter (which, unlike biodiesel, cannot be reimbursed by government programs) reduces the competitiveness of imported fuel ethanol, particularly from Brazil. The production cost of Brazilian ethanol is reported to be well below the cost of production for Australian ethanol. Furthermore, according to government sources, imported ethanol also attracts a tariff of five percent. These measures have effectively prevented commercial trade in ethanol for consumption as transport fuel.

3. Biodiesel

3.1 Production

Post estimates biodiesel capacity for 2011 at 215 ML, while production is estimated well below capacity at 80ML. Some estimates put biodiesel capacity well above 215ML.

Going forward, the upward potential for biofuel production remains large. Additional plants are currently under consideration and could potentially lift biofuel production to 945 ML by 2014. However it is unlikely that all potential projects would be completed.

Conventional & Advanced Biodiesel (million liters)						
Year End July	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Production	43	54	98	80	80	90
Imports	5	4	12	9	0	0
Exports	0	0	0	0	0	0
Consumption	47	58	110	89	80	90
Ending Stocks	2	2	6	7	9	9
Production Capacity (Conventional Fuel)						
No. of Biorefineries	7	9	8	6	7	7
Capacity	174	136	283	215	215	280
Source: Government of Australia, the Department of Resources, Energy and Tourism/World Trade Atlas/Post Estimate						

Supplies of by-products for biodiesel, such as tallow, will likely improve in the future due to improved seasonal conditions and the prospect of fatter slaughter cattle. However, this will likely be balanced by lower slaughter figures. Supplies of waste vegetable oil, the other large feedstock source for biodiesel, will likely remain largely unchanged.

3.2 Biodiesel Trade

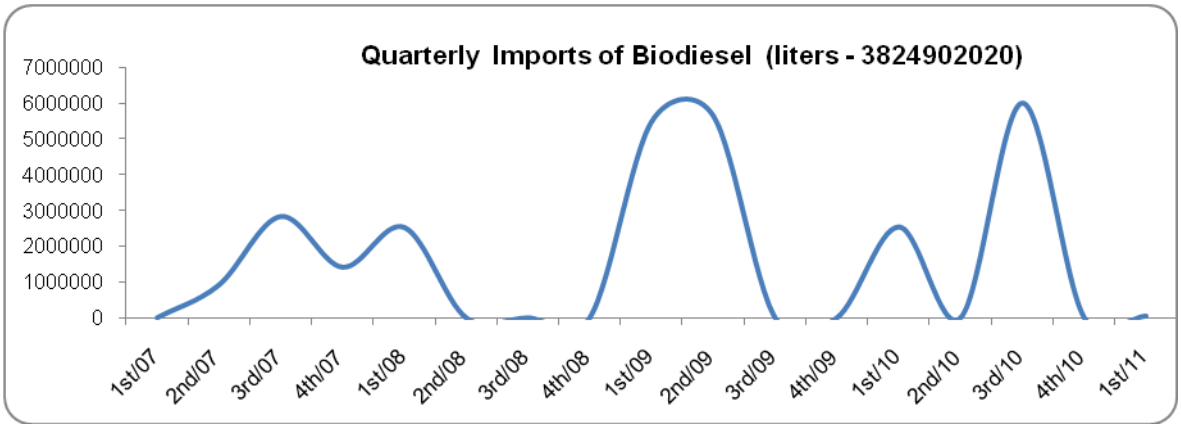
Post advises that official trade data suggests that imports of biodiesel have largely stopped since the Australian Customs Service published its dumping notice. Post estimates put biodiesel imports for 2010 at 8.5 ML. Imports of biodiesel thus far in CY 2011 appear to have all but stopped.

Australian Imports of Biodiesel (Liters)							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Biodiesel Component Of Blends Of Biodiesel And Oth HS 3824.90.30.46	0	0	0	0	1,599,210	1,367,340	18,069
Biodiesel Manufactured By Chemically Altering Vege 3824.90.20.20	0	0	2,144,814	5,154,193	2,523,420	11,104,577	8,531,071
Total Liters	**0**	**0**	**2,144,814**	**5,154,193**	**4,122,630**	**12,471,917**	**8,549,140**

Post has used HS codes 3824.90.30.46 and 3824.90.20.20 to estimate imports. Post advises however, that other biodiesel imports may have been recorded under other HS codes (such as 2710.11.80.11, 2710.19.80.21 and 2710.91.80.82).

Australian Imports of US Biodiesel from the United States (Liters)							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
HS 3824903046 Biodiesel Component Of Blends Of Biodiesel And Oth	0	0	0	0	0	18,069	0
Biodiesel Manufactured By Chemically Altering Vege 3824902020	0	0	0	1,204,232	0	11,104,107	8,531,071
Total Liters	**0**	**0**	**0**	**1,206,239**	**0**	**11,124,185**	**8,533,081**

Recent anti dumping and countervailing action appears to have at least assisted in the decline of imports of biodiesel. That said however, official trade data would suggest that historically imports of biodiesel have been of a relatively sporadic nature.



Source: WTA Data

AVIATION FUEL ROAD MAP STUDY

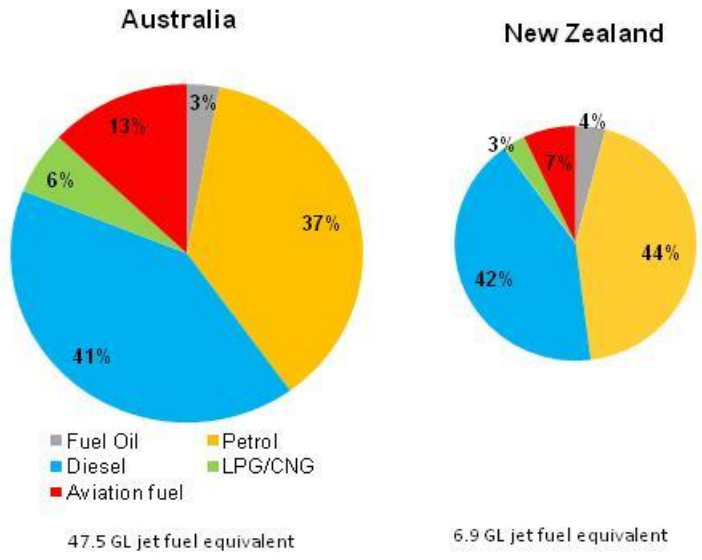
Potential for sustainable aviation fuel production

The global aviation industry has set greenhouse gas emission targets, aiming to achieve carbon neutral growth from 2020. The Commonwealth Scientific Industrial Research Organization (CSIRO) recently released a report "Flight Path to Sustainable Aviation". This report is based on the findings of the Sustainable Aviation Fuel Road Map study.

The report outlines key challenges and opportunities for sustainable aviation fuels along with recommendations for the future. The aviation sector continues to meet rising demand for air transport services and this is driving the need to diversify and conserve fuel supplies into the future, as well as working towards reducing its environmental impacts, particularly greenhouse gas emissions.

Currently there are no significant supplies of bio-derived jet fuel available anywhere in the world. However, aviation fuel demand is only a relatively small proportion of total fuel demand, accounting for 13 per cent of total fuel demand in Australia and 7 per cent in New Zealand. Consequently, producing the volume of biomass required to support a significant share of bio-derived fuel in the industry is not as great a challenge as it is for other transport fuels.

Fuel consumption by type in Australia and New Zealand in 2008-2009



Source: ABARES (2010); Ministry of Economic Development

Australia and New Zealand are in a strong position with respect to potential bio-derived fuel production. Based on available data, it is conservatively estimated that within one decade the region has the potential to supply almost half of the local aviation sector's fuel needs from biomass and supply all its needs over the long term as various novel resources and production systems become more established.

4. Advanced Biofuels

Investigations conducted by Post have not revealed any commercial production of advanced biofuels. Industry sources believe that Australia will not likely lead the world in production of advanced biofuels but will likely follow other countries. However, many new developments have occurred in advanced fuel sources for non-transport energy such as landfill gas, sewerage gas and wood waste.

5. Bio Mass for heat and power

According to ABARE, renewable energy accounts for around five percent of Australia's total energy consumption. Biomass electricity production in Australia is provided (almost exclusively) by the Australian sugar industry which produces its own electricity (as well as a surplus) using Bagasse as a fuel source. Bagasse accounts for over one third of renewable energy production according to ABARE data.

The primary driver of Australia's renewable energy development is the Australian Government's Mandatory Renewable Energy Target (MRET) which aims to increase Australia's electricity generation from renewable sources by 9,500 gigawatt hours per year by 2010. The source which have experienced the greatest growth under this policy are wind and solar. Recent legislation, passed in August 2009 commits the Australian government to ensuring that 20 percent of Australia's electricity is generated from renewable sources by 2020.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Title of Report	Date
Exporter Guide	06/22/11
Sugar Update 2011	06/20/11
Ag DownUnder June 2011	06/07/11
Dairy Semi Annual 2011	05/09/11
Testing of Food from Japan - Update	04/14/11
Sugar Annual 2011	04/13/11
Additional Testing Required for Japanese Food Products	04/08/11
Cotton and Products Annual	04/04/11
Grain and Feed Annual 2011	03/29/11
Livestock and Products Semi-annual 2011	03/18/11
Wine Annual 2011	03/10/11
Public Attitudes Towards Agricultural Biotechnology in Australia	03/08/11
Review of Food Labeling & Policy	02/24/11
Grain & Feed Lock-Up – February 2011	02/01/11
Citrus Annual 2010	12/15/10